

Message Text

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ACTION EA-12

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E.O. 11652: XGDS-1
TAGS: EMIN, ENRG, ETRD, CH, HK, US
SUBJ: PRC COAL FOR HONG KONG: NEGOTIATIONS ON LONG-TERM SUPPLY
CONTRACT

REF: HONG KONG 0774

1. SUMMARY: AN AGREEMENT IN PRINCIPLE WITH THE PRC ON
THE LONG-TERM SUPPLY OF COALS FOR ESSO/CHINA LIGHT AND
POWER'S PLANNED 1400 MW THERMOPOWER PLANT (REFTEL) IS
EXPECTED BY THE END OF THIS YEAR, PROVIDED THE TECHNICAL
SPECIFICATIONS OF CHINESE COAL MEET THE PLANT'S REQUIRE-
MENTS AND DIFFERENCE REGARDING PRICE AND TRANSPORT/
DELIVERY TERMS ARE RESOLVED. THE CONTRACT WILL LIKELY
BE SIGNED IN THE FIRST QUARTER OF 1979. END SUMMARY

2. A RELIABLE SOURCE HAS PROVEDED CONGENOFF WITH ACCESS
TO AN ESSO COAL SURVEY TEAM'S REPORT ON THEIR JUNE
NEGOTIATIONS WITH MINMETALS IN PEKING AND SUBSEQUENT VISITS
TO TATUNG AND CHINHUANGDAO. THE TEAM GAVE MINMETALS A
SCHEDULE OF THE PROJECTED PLANT'S COAL REQUIREMENTS
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THROUGH 1987 AND COMMITTED THEMSELVES TO PURCHASING OVER
50 PERCENT OF THE TOTAL FROM THE PRC'S TATUNG MINES.
THE PRECISE PROPORTION SUPPLIED BY THE CHINESE (PROBABLY
AROUND 60 PERCENT) WILL DEPEND IN PART ON THE RESULTS
OF TECHNICAL ANALYSES, CARRIED OUT IN THE U.K. AND
AUSTRALIA, ON SAMPLES OF TATUNG COAL.

3. THE CHINESE AGREED TO SALES ON A CIF BASIS AND TO QUALITY-LINKED PRICING BASED ON A REFERENCE CALORIFIC VAULUE (CV). THAT IS, PRICES WOULD BE LINKED, ON A SIMPLE PROPORTIONAL BASES, TO HEAT ENERGY IN THE COAL AS DELIVERED. IF THE HEAT VALUE EXCEEDED THE REFERENCE CV BY SAY 5 PERCENT, THE PRICE WOULD BE 5 PERCENT MORE PER TON, AND VICE VERSA. IF THE HEAT VALUE WERE LOWER. COMPENSATION FOR QUALITY DEVIATIONS FROM THE REFERENCE VALUE WAS A MAJOR STICKING POINT IN THE DISCUSSIONS. THE TEAM PRESSED FOR A PRO RATA BONUS/PENALTY AND EVENTUALLY OBTAINED PRC AGREEMENT TO A FIXED BAND ABOUT THE REFERENCE VALUE WITHIN WHICH THE BONUS/PENALTY WOULD NOT BE APPLIED.

4. AS IN PREVIOUS TALKS (REFTEL) THE CHINESE REPEATEDLY STRESSED THEIR INTEREST IN SUPPLYING THE PLANT'S TOTAL COAL REQUIREMENTS, STATING THAT THEY DID NOT UNDERSTAND THE NEED FOR PURCHASES FROM AUSTRALIA AND WOULD BE WILLING TO LOOK FOR OTHER SOURCES IF TATUNG COAL PROVED TECHNICALLY INACCEPTABLE. (THE TEAM'S PRELIMINARY ASSESSMENT, BASED ON THE CURRENT FOB PRICE OF TATUNG COAL -- 52.5 RMB PER TON AT CHINHUANGDAO -- IS THAT PRC AND AUSTRALIAN COALS ARE BROADLY SIMILAR IN PRICE AFTER ALLOWING FOR FREIGHT COSTS).

5. THE TEAM WAS FAVORABLY IMPRESSED WITH THE "VERY GOOD QUALITY" OF TATUNG COAL, THE CONDITION OF THE 700 KM OF

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RAIL LINES FROM TATUNG TO CHINHUANGDAO AND THE PRC'S TECHNICAL SAMPLING ABILITY. MAJOR FAULT, HOWEVER, WAS FOUND WITH THE RAILWAY ROLLING STOCK (WOODEN CONSTRUCTION AND IN NEED OF REPAIR). THE TEAM WAS ALSO SKEPTICAL BOTH THAT THE NEW COAL BERTHS AND HANDLING FACILITIES AT CHINHUANGDAO WOULD BE COMPLETED BEFORE 1982 WHEN SHIPMENTS TO HONG KONG WOULD BEGIN OR THAT THE CARRIERS WOULD MEET THE SIZE (NOT LESS THAN 30,000 DWT) AND TECHNICAL (SINGLE-DECK GEARLESS BULK CARRIERS) SPECIFICATIONS PHYSICALLY REQUIRED BY THE UNLOADING FACILITIES TO BE CONSTRUCTED IN HONG KONG. THE TEAM'S REQUEST TO VIEW THE EXPORT COAL PILE AND THE SITE FOR THE NEW COAL LOADING FACILITIES AT CHINHUANGDAO, AS WELL AS TO MEET WITH RAILWAY AUTHORITIES, WERE DENIED. THE CHINESE DID SAY THAT OF THE FOUR NEW COAL BERTHS SCHEDULED TO BE BUILT AT THE PORT UNDER THE 10-YEAR PLAN, TWO WOULD BE COMPLETED BY 1980, THE OTHER TWO, BY 1985. ALL FOUR WOULD ACCOMMODATE 30,000-50,000 DWT VESSELS. THE TECHNICAL REQUIREMENTS FOR CARRIERS MENTIONED BY THE TEAM WOULD BE "BORNE IN MIND". IN ITS REPORT, THE TEAM RECOMMENDED THAT, PRIOR TO THE SIGNING OF ANY CONTRACT, A FURTHER VISIT BE MADE TO INSURE THAT RAIL AND PORT FACILITIES WERE BEING BUILT ACCORDING TO THE PROGRAM

OUTLINED BY THE CHINESE.

6. DETAILS OF THE THERMOPOWER PROJECT ITSELF (INCLUDING TOTAL COAL REQUIREMENTS), A COMPARISON OF TECHNICAL SPECIFICATIONS OF THE COAL REQUIRED BY THE PLANT WITH THOSE OF TATUNG CAOL (REFERENCE SPECIFICATIONS SUPPLIED BY THE CHINESE), AND REPORTS ON VISITS TO MINES AT TATUNG WILL BE AIRPOUCHED TO THE DEPARTMENT.

7. THIS INFORMATION IS COMMERCIALLY SENSITIVE AND SHOULD BE STRICTLY HELD WITHIN THE USG.
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